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COMMONWEALTH OF AUSTRALIA.

DEVELOPMENT AND MIGRATION COMMISSION.

SECOND INTERIM REPORT

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Investigation into Present Position of Tasmania

(With Appendices)

COMMONWEALTH OF AUSTRALIA

DEVELOPMENT AND MIGRATION COMMISSION.

SECOND INTERIM REPORT ON INVESTIGATION INTO
PRESENT POSITION OF TASMANIA.

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Melbourne, 7th May, 1928.

The Right Honorable Senator Sir George Foster Pearce, P.C., K.C.V.O.,
Vice-President of the Executive Council,
Parliament House, Canberra.

SIR,

The Commission has the honour to present its Second Interim Report on Investigation into the Present Position of Tasmania.

Yours faithfully,

(Signed) HERBERT W. GEPP,
Chairman.

No. 473.

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SECOND INTERIM REPORT ON INVESTIGATION INTO PRESENT POSITION OF TASMANIA.

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PART I.—INTRODUCTION.

On the 23rd May, 1927, the Development and Migration Commission presented an "Interim Report on Investigation into the Present Position of Tasmania." The present Report is intended to be read in conjunction with the Interim Report abovementioned.

In order to connect these Reports, the following quotations are made from the Interim Report dated 23rd May, 1927 :—

The Tasmanian Government accepted the proposals for a full investigation, and, on the 20th August, 1926, the Prime Minister requested the Commission—

"To investigate the present position in Tasmania and recommend as to any method in which assistance can usefully be rendered in that State."

The Commission has accordingly over a period of several months made a close inquiry into the position. This inquiry has been conducted with the fullest assistance of, and in conjunction with, the Tasmanian Government, and State Development Board, and the officials of the State. It is appropriate to acknowledge the spirit of co-operation which has actuated all sections of Tasmanian people and to express appreciation of the help rendered.

Generally, it may be said that all phases of production, transport, and marketing are found to be capable of improvement by systematic work by experts in each department of activity. The inquiry so far made by the Commission has entered into the questions of agriculture, markets, extension of co-operative action among producers, finance, timber industry, mining, fisheries, manufacture, transport (external and internal), and the tourist traffic.

In the time available, the Commission has not been able to deal finally with all the foregoing subjects, but is proceeding with its investigation with a view to submitting, at as early a date as practicable, a comprehensive Report covering the whole of them.

Early in the investigation it became clear that the position of the agricultural industry was so serious that immediate steps for its improvement were considered essential. The presence in Tasmania of officers of the Council for Scientific and Industrial Research, who were investigating certain phases of agriculture, helped in the consideration by the Commission of this part of its investigation.

The Commission is now in a position to make definite recommendations regarding the steps which it considers are necessary to be taken in order to place agriculture in Tasmania on a profitable basis, and has deemed it advisable to issue a preliminary Report dealing with the subject of agriculture only, without awaiting the full Report on the whole of the questions which are included in the investigation.

The people engaged in agriculture in Tasmania and those associated with the industry are realizing that the advancement in methods and the intelligent and practical application of scientific knowledge will materially improve the conditions of the agricultural industry in Tasmania. With this realization the position should undergo a marked and rapid change and should lead to permanent improvement, if not complete restoration.

The need for the closest co-operation between the proposed extended Agricultural Department and the people is essential to success. This cannot be stressed too strongly, because, after all, the final success depends upon the work which the Department will do and the practical use which will be made of the knowledge furnished to the people engaged in the industry or dependent upon it.

In order to effect essential improvements, the Commission, in its recommendations, considers it necessary to cover finally three necessary functions, namely :—

1. Extension of scientific knowledge among producers.
2. Finance.
3. Marketing.

The first step, viz., Extension of scientific knowledge, must precede the other two. This step the Commission considers can best be taken by the immediate strengthening of the Agricultural Department in this direction.

Detailed recommendations to this end are then made, and the Report concludes as follows :—

In the *States Grants Act* 1927, Tasmania is granted Federal aid to the amount of £378,000 per annum in the two years 1926-27 and 1927-28. With this assistance the State has reduced direct taxation by £140,000 in the current year on lines recommended by Sir Nicholas Lockyer. Prior to this reduction, Tasmanian direct taxation was the highest of any State and was seriously retarding production. Certain arrears of interest and sinking fund which had been deferred in previous years were made up, and increased appropriations were made to aid mining, agriculture, and other departments. A surplus of over £22,000 was anticipated, and the results of the financial year, so far, indicate that this will be realized.

The Commission recommends that the State should carry the expense of the increased staff for the year 1927-28 by appropriations from this surplus.

Before 30th June, 1928, it will be necessary for the Federal Parliament to consider what assistance will be necessary for Tasmania in the ensuing years. Before that date the Commission will be prepared to make recommendations in connexion with other phases of Tasmania's economic condition.

It is the opinion of the Commission that Tasmania will require Federal financial assistance for some years to come, and it is recommended that, subsequent to 30th June, 1928, the amount of such assistance should be fixed at a definite sum per annum for five years thereafter. This period is suggested as the minimum period in which a fair judgment of the efficiency of the remedial measures can be made, and its adoption would enable definite plans to be developed under stable conditions.

In arriving at the amount of this assistance, due consideration must be given to the taxable capacity of the State in relation to the cost of necessary Government services; and, in addition to assistance which may be necessary on this account, the cost of the remedial measures recommended by the Commission (including the increased expenditure recommended herein for the Agricultural Department) must be included.

Again, prior to the expiry of this five years, the Commission recommends that the position should be reviewed in order to determine whether assistance for a further period is necessary and the amount thereof.

Work has been steadily prosecuted by the Commission in conjunction with the Tasmanian authorities upon the questions of finance and marketing generally, and upon the other subjects mentioned in the above quotations. It is anticipated that further reports will be issued from time to time dealing with subjects such as the Timber Industry, Fisheries, the Tourist Traffic, Transport, &c. The present Report deals in detail with the two subjects of Rural Finance and Marketing, which are essential for the further development of the agricultural industry in Tasmania.

Much study and investigation by the Commission has been necessary in order to obtain as complete a view as possible upon the details of these two important aspects and, as the investigations proceeded, it became apparent that there were many possibly contentious matters which might, if submitted without proper consideration, tend to delay rather than expedite rehabilitation of the Agricultural Industry.

It is comparatively simple to submit proposals in general terms for a Rural Bank and for the inauguration of co-operative marketing methods for Tasmania, but an examination of the details of the application of these particular principles in other States and in other countries has made it clear that much consideration is still necessary in order to meet the particular conditions of any individual State or country.

There are in Tasmania a number of industries whose products are peculiarly susceptible to fluctuations in supply and demand. We need only cite oats, oaten and wheaten hay, potatoes, soft wheat, and other products of mixed farming areas, and also to a certain extent horticultural products generally. To date Tasmanian agricultural prosperity has, to a certain extent, depended upon the adversities of the mainland.

There have been, from time to time, spasmodic efforts directed towards the organization of the producers of Tasmania, but with comparatively little success in so far as influence upon the problems of production and disposal of products is concerned.

Excluding the pastoral industry, through no fault of individual producers, agricultural profits have been of the "hit-and-miss" variety. Chart No. 1 attached to this Report, showing the variations in the crop and in the prices of Tasmanian potatoes over the last ten years, illustrates this point.

Consequently there has arisen a quite comprehensible demand from Tasmania generally, and from Tasmanian producers in particular, for an examination of their whole economic position, with a desire and hope that from this examination would arise recommendations which would lead to greater security regarding the sale of, and the profits from, their agricultural activities.

The development of better methods of agriculture, financing, and marketing has been very slow in Tasmania, for the reason that much of the production of the State depends for profit, and even for sale, upon the variable climatic conditions of the mainland, and that to date the export business to other countries has in most industries been somewhat spasmodic and at times very unsatisfactory. Also, the proximity of much of the farming land of Tasmania to the big consuming and financial centres of Melbourne and Sydney has rendered local organization and local finance more difficult. It will thus be seen that there are special conditions and difficulties in connexion with the organization generally of Tasmanian agriculture.

The Commission considers that the extension of scientific knowledge among producers is the first necessity, and has recommended accordingly. Following upon steps taken to improve and increase the Agricultural Department in Tasmania, there came the very significant development of a more complete organization of the Agricultural Bureau system throughout Tasmania, culminating in an important meeting held in Launceston in 1927 convened by the Honorable the Premier, at which he outlined the agricultural policy of his Government. The Commission has from time to time during the past twelve months discussed with and emphasized to the Government the outstanding importance of the Agricultural Bureau system to Tasmanian organization, and has made available to the Tasmanian Government the services of its special officers to assist in this work. In addition, the Chairman and Mr. Commissioner Gunn spent some weeks in 1927 visiting various parts of Tasmania, by agreement with the Government, for the purpose of drawing the attention of the agriculturists of Tasmania to the necessity for organization in this manner.

The meeting at Launceston appointed a State Council to control the Bureau organization and adopted a constitution which is now functioning.

The Commission desires to draw particular attention to its recommendation that the Agricultural Bureau in Tasmania should be the central feature of Tasmanian re-organization, and the principal means whereby the re-organized Department of Agriculture will be able to function successfully and reach the farmer effectively.

It must be emphasized that the final achievement of better results, both practically and economically, can be attained only by the active participation of the agriculturists of Tasmania in all steps necessary to improve methods of finance and the methods of marketing their products. The Tasmanian Government may provide sound leadership, the Development

and Migration Commission, as advisers to the Government, may make sound recommendations, the Agricultural Department, with an efficient staff, may give good advice and emphatically prove that its suggestions are sound, but all these efforts will be in vain unless there is a keen and continuous determination by the agriculturists themselves, and by all other sections of the community interested, to combine and to take concerted action towards improvements of conditions in the various industries.

For the purpose of visualizing the final objective, let us assume that the producers in their Bureaux, the Agricultural Department and all other Government Departments directly or indirectly concerned are functioning actively and successfully; further, that a Rural Bank, soundly administered and with sufficient finances, is in operation; and that there are all the necessary facilities—both legislative and administrative—for the formation of any necessary co-operative enterprises and for negotiations and dealings between united bodies of producers on the one hand and merchants and Australian and oversea consumers on the other.

Under these circumstances, slowly but surely improvements must follow. As for instance—

1. Information will in time become available regarding the tonnage of any particular product which should be grown.
2. Finance will be available for justifiable extensions of individual or collective farming operations.
3. The State Council of the Agricultural Bureau provided with skilled officers on the secretarial and marketing sides will be able to foster the development of sectional associations particularly concerned with individual products. These committees will determine from time to time whether specific co-operative activities on the business and marketing sides are necessary, or whether by negotiations with existing merchant organizations the essential improvements can be obtained.
4. The Agricultural Department, co-operating with the Bureau system generally, and with the full support and confidence of the agricultural community, will assist not only in technical improvements, but in all other avenues that may open up as, for example, in the development of other industries not previously exploited in Tasmania.
5. New ideas in connexion with the agricultural or pastoral industries generally, originating from any source and requiring special assistance in their formulation or initiation will be submitted to the State Development Board, which will obtain such special assistance and advice from State Departments and Commonwealth instrumentalities, such as the Development and Migration Commission, the Council for Scientific and Industrial Research, and the Commonwealth Department of Markets, or from outside consultants. If proved to be sufficiently attractive and in need of financial assistance, such schemes can then be considered for necessary financial backing by the State Government (through the Rural Bank).

A number of separate organizations are recommended for the discharge of the different functions. Continual care must be taken that these work in close harmony, and that the inevitable tendency for each organization to work in a water-tight compartment is prevented. In a word, specialization is essential, but it must be accompanied by proper co-ordination.

Even the best efforts will not prevent failures and setbacks, but work on the lines set out must result in time in a substantial number of successes.

The magnitude of the task must be realized, and the necessity for the most strenuous and well-considered effort on the part of all concerned must be emphasized.

Summarizing the position as the Development and Migration Commission sees it, the Tasmanian Agricultural Industry must be given the collective assistance of a skilled Agricultural Department, of a soundly-administered Rural Bank, and of special marketing facilities all centred round its own organization of the Agricultural Bureau. Consistently supported by the central Government of the State, this organization will develop a special knowledge of the methods of improving the economic conditions of the industry and will steadily evolve lines of attack on each problem which will have excellent chances of success, if backed by producers as a whole.

Each particular problem, such as the profitable production of fat lambs, the increase of the production of high-class bacon, the regular sale of the products of the poultry industry, the control and sale of products of the potato industry, the necessary maintenance of the fertility of the farming lands of the State, the stabilization in conjunction with the mainland of the dairying industry, must be studied as a separate entity, but also with due consideration to its bearing upon other sections of the community.

Illustrations, which have been worked out by the Commission in regard to the fat lamb industry and the berry fruits industry are published simultaneously with this Report as separate Technical Reports. These are submitted as examples of the methods that can be followed in working out proposals for new marketing organizations.

It will be seen that the Commission does not submit these proposals as being the final word, but has prepared them for submission to the producers concerned. If these producers decide to adopt the schemes and desire Government assistance in their initiation they will be in a position to submit the proposals through their Agricultural Bureau organization to the State Development Board for consideration and report to the State Government.

It is expected that in other instances similar schemes will be developed by the producers concerned with the assistance of the Agricultural Bureaux to the stage of the appended reports.

The foregoing is a Summary of the recommendations of the Commission. The statements which follow deal in sequence with the details of each of the steps recommended.

PART II.—RURAL FINANCE.

(a) REQUIREMENTS OF THE PRIMARY PRODUCER.

Throughout the world the need of the small producer for improved credit facilities is becoming apparent as part of a world movement towards the adoption of scientific methods of finance and farming, designed to increase the volume of production at reduced cost, to the mutual advantage of both consumer and producer.

In Tasmania at present this need is particularly great.

The principle may be stated that in those countries or States where rural credit facilities are lacking, farming is generally less efficient and settlement is retarded.

In this connexion may be cited the following extract from the Report to the Imperial Government of the Agricultural Committee of 1923 :—

“ We feel, however, that the case of the agriculturist presents special features entitling him to exceptional and preferential consideration. In the very nature of things the agriculturist is often isolated and remote from the normal opportunities of obtaining credit. Compared with those of the manufacturer and the trader, his operations are complex, long in their cycle, and subject to exceptional risks from weather and disease beyond the ordinary ups and downs of prices and wages which he suffers in common with industrialists. For the greater part of the year, and specially when he is most in need of credit, his capital is sunk in forms of wealth difficult for any one but an expert to value, and not readily chargeable as security for an advance, while his personal training and methods of life are not such as to fit him to surmount those natural disadvantages and to establish that position in the credit market to which his financial stability and high standard of probity generally entitle him.”

During the Imperial Conference in London in 1926, at the request of the Chairman of the Development and Migration Commission, the Oversea Settlement Special Sub-Committee of the Conference appointed a Committee to inquire into and report upon the subject of rural credits in Australia.

The report of this Committee has been published and is attached to this Report as Appendix II. It should be carefully considered in conjunction with this section of this Report. The Committee classifies credit into—

- (a) Long term or mortgage credit,
- (b) Marketing credit,
- (c) Production credit,

and this classification is now followed.

(b) LONG TERM OR MORTGAGE CREDIT.

In Tasmania there seem to be similar facilities to those of the mainland for credit of this class on the same security and interest terms as obtain on the mainland.

In addition to the above facilities, the State Advances Act of 1907 has established an Agricultural Bank with very limited powers.

The following section of the Act sets out to whom and on what conditions advances can be made :—

“ The manager, with the approval of the Trustees, may make advances on the prescribed security to the farmers and other producers owning land in fee simple or holding land under purchase from the Crown upon the credit system, for any of the following purposes, namely :—

- (1) Payment of liabilities already existing with respect to the holding or payments of the balance of any purchase money in respect of the purchase of the holding or any stock, machinery, or implements therefor ;
- (2) Agricultural, dairying, grazing or horticultural pursuits on the holding ;
- (3) Making the prescribed improvements on the holding ;
- (4) Adding to the improvements already made on the holding.”

Parliament limited the total capital to £200,000 and the amount of any one advance to £1,500. Recent legislation has now altered the limit of a single advance to £3,000, and the capital of the Bank has been increased to £350,000.

From a study of Appendix II. it will be seen that the Committee recommended that rural finance of this nature should whenever possible be freed from dependence on State guarantees of its capital. They state—“ Agriculture, like any other industry, should raise its capital upon the inherent value of its assets and resources.”

The Commission, while agreeing with the ultimate soundness of this statement, considers that a very much higher degree of organization of the Agricultural industry than at present exists in Tasmania must be attained before it can be realized. The change would involve a departure from the present universal Australian practice of Government owned and operated Rural Banks to a system whereby such Banks will be owned and financed by producers on a co-operative basis. For these reasons the Commission considers that this suggestion is impossible of application in

Tasmania at present, and that any further lending facilities in this field that may be required immediately in that State must come from an extension of the activities of a Rural Bank guaranteed by the Government.

(c) MARKETING CREDIT.

This is credit which provides finance for the primary producer during the period of transit of produce, its storage and up to the time of its sale. In this field the Rural Credits Branch of the Commonwealth Bank is available, and such business is also readily taken by Trading Banks when offered under conditions acceptable to them.

The Commission agrees with the above quoted Committee on Rural Credits in Australia that in this field improvements will lie as much "in the organization of agriculture for borrowing as in the provision of new facilities for lending." If the recommendations to this end in this present Report concerning marketing be given effect, the Commission is of the opinion that existing facilities will be found sufficient to cover much more of this field than in the past. Any further facilities necessary will be covered by the recommendation made in the next paragraph.

(d) PRODUCTION CREDIT.

This includes loans generally for periods of not more than twelve months for the purchase of seeds, fertilizers, &c. and for longer period for the purchase of live-stock, fruit trees, &c.

In this field the Tasmanian producer must depend on ordinary overdraft credit with Banks, the storekeeper, merchant, stock auctioneer and agent, and here the Commission considers there is considerable room for improvement. To quote the Committee on Rural Credits in Australia--

"Farmers should aim at having a minimum number of creditors, at borrowing from the Banks, and paying cash to the merchant, rather than tying their business up with a number of minor trading debts."

In this field Tasmania lacks the rural banking facilities available in other States, and it does not appear possible in the peculiar conditions of Tasmania for the ordinary trading Banks to satisfactorily cover this requirement.

The Commission, therefore, recommends that the Government organize the necessary institution for the supply of this variety of credit. Such a Bank should not, however, be limited to this field only, but should have the full powers and freedom of an ordinary trading Bank. In this way only can its overhead be reduced to as low a percentage of its turnover as is desirable in the interests of producers.

(e) METHODS THAT MIGHT BE ADOPTED TO PROVIDE THE NECESSARY RURAL FINANCE ORGANIZATION IN TASMANIA.

(1) Following upon discussions between this Commission and the Commonwealth Bank, the Bank is prepared to negotiate with the Tasmanian Government on the basis of providing the machinery of the organization and acting as agents for the Tasmanian Government, along the lines laid down in the following extract from a letter dated 11th November, 1927, from the Governor of the Commonwealth Bank to the Chairman of this Commission :

1. The Board would be agreeable to the Bank acting as agents for the Tasmanian Government for the purpose of carrying into effect a scheme on the lines indicated.
2. The Bank would provide all necessary facilities of bookkeeping, &c., at its various Tasmanian Branches, including keeping of individual accounts, the making of advances and the receiving of interest and repayments on account therefor and all work incidental thereto.
3. Payment for services so rendered by the Bank would be determined upon a percentage upon outgoings and incomings involved in carrying out the work on a basis to be agreed upon between the Tasmanian Government and the Bank.
4. The Bank would so far as practicable provide Branch services to meet the needs of the scheme in so far as such can be covered by the payments made to the Bank for its services.
5. The Bank would be prepared from time to time to make authorized temporary advances to the Tasmanian Government to provide funds for the scheme, such advances to be repaid to the Bank by the Government as may be arranged between the Bank and the Government, upon terms to be agreed upon.
6. All business transacted in connexion with carrying out the scheme to be on account of the Government to whom would accrue any losses or profits arising out of the operations.
7. The Bank to render to the Government every six months a statement of accounts covering the operations under the scheme.
8. The arrangement if entered upon between the Bank and the Government to be for a term to be agreed upon.
9. All advances made by the Bank to be only so made upon and in terms of a written direction or certificate to be provided by Trustees appointed and authorized by the Government for this purpose.

The foregoing generally covers the ground of any arrangements which might be come to between the Government and the Bank.

It would seem that included in legislation which would have to be considered by the Tasmanian Government for carrying out this scheme, the following would have to be provided for :—

- A. The appointment of Trustees for authorizing advances.
- B. The regulations covering the nature and terms and amount of advances authorized by Trustees.
- C. Powers for the Government of the day to raise funds for the purpose of carrying out the scheme.
- D. Powers of the Government to appoint the Bank as its agents for carrying out this work.
- E. Question as to whether this scheme might not supersede the present Agricultural Bank, the continuance of which under the circumstances may be a redundant service.
- F. Any other legislation required generally.

It is understood that these negotiations between your Commission and this Bank are of a preliminary nature for the purpose of giving shape to more definite consideration of the proposals, and that in the event of business arising therefrom the Bank and the Tasmanian Government would conclude all arrangements."

(2) An alternative method is for the Tasmanian Government to provide for the extension of the existing Agricultural Bank along the lines of that existing in South Australia.

The salient points of an organization of such a nature would be—

1. That it have all the powers of an ordinary trading Bank and, in consequence, would be subject to no limitations with regard to the extent of individual advances.
2. That the Board of Directors be nominated by the Government.
3. That the consolidation of all Acts relating to State advances for developmental purposes be undertaken.
4. That the capital be guaranteed by the State.

The inclusion of general trading operations among the functions of such a Bank renders it essential that the management should vest in the hands of men who have had wide experience in this class of banking business.

The Commission desires to emphasize that the salaries payable to the management staff must be commensurate with their responsibilities, and that, for instance, in order to obtain a general manager with the necessary qualifications, the salary offered would need to be comparable with that which is paid by private banking institutions.

The second alternative would have the advantage of being merely an extension of an existing institution, and would involve no transfer of existing business from one organization to another.

On the other hand, the advantages of accepting the offer of the Commonwealth Bank would be—

1. The State would have the advantage of the experience of the largest Government banking institution in Australia.
2. The cost of operating would probably be considerably less in the earlier years.
3. As the agreement is suggested for a limited period, and as it is proposed to administer this business as a separate department of the Commonwealth Bank's Tasmanian branches, it would be possible at the end of this period to transfer the whole organization to State control.

The State Government could, after investigation, decide whether the task of extending the functions of the existing State Bank will be greater or less than that of transferring the operations of that Bank to the Commonwealth Bank for the time being.

The Commission considers that the question of deciding between these alternatives is one for the Tasmanian Government, and refrains from making any recommendation. It is, however, of the opinion that there should not be two Banks, but that the one organization should handle both the business of the existing State Bank and the new Rural Bank business.

(f) SOURCES OF SUPPLY OF CAPITAL FOR RURAL BANKING.

The Commission recommends that the organization set up for the provision of improved credit facilities for primary producers should have the powers of an ordinary Trading Bank, which would enable it to operate to some extent on current Account Deposits. The main source of capital must immediately be from the State Government, either directly or by means of a Government Guarantee to bonds subscribers or to the Commonwealth Bank.

(g) FUNCTIONS OF THE RURAL BANK.

The granting of long term loans in the forms of rural mortgage and the provision of short term credit under such conditions as the Directors hold fit must rank as the principal business of the proposed Rural Bank.

In addition, work of the re-organized Agricultural Department can hardly be expected to be fully effective if no proper instrumentalities exist to finance the development of the farm.

The establishment of the fat lamb export industry is an example of an undertaking which, if it is to be established, may require the support of the credit of the State for its initiation. Though finance from the Rural Credits Branch of the Commonwealth should be of great assistance in this project, considerable credit will be necessary for working capital before the stage is reached at which the Commonwealth Bank can operate.

When the Bank is approached for credit for such schemes the Board must be in a position to judge them and decide whether an advance can be granted, guided only by the principles of sound banking. In a few cases in which a scheme, although offering possibilities of great advantage to the community, is of an experimental nature, the Bank Board should on no account be asked to take the risks involved. In such cases it may be necessary for the Government to guarantee such accounts on the lines and with the safeguards outlined later in this Report.

The methods which the Tasmanian Government may adopt to improve the efficiency of agricultural production may call for financial dealings with individual producers. In some States of the Commonwealth there has arisen a system whereby a number of Government organizations are financing rural operations in a parallel unco-ordinated manner. It is felt that this should be avoided in Tasmania and the Bank made the instrumentality for the application of governmental aid for all purposes of development.

PART III.—MARKETING METHODS.

(a) GENERAL CONSIDERATIONS.

The profitable disposal of Tasmanian products depends upon two main factors :—

1. Elimination of all unnecessary costs of production ; and
2. Provision for the most efficient and ultimately the cheapest methods of organization for the processing, transport and disposal of these products.

Experience, small but definite, indicates that, at the beginning, in many Tasmanian industries, insufficient progress can be achieved towards such objectives either with regard to the subscription of the necessary finance, or the provision of the necessary organization and leadership from within the industry. There is every reason to believe, however, that if a few examples of definite successes can be achieved, the future development of the essential movement towards orderly marketing will follow with a gathering momentum, and that gradually but certainly the prop which the Government, representing the people of Tasmania, must provide at the beginning, can be withdrawn except in so far as the necessary supervision on the legal and financial sides, which will probably need to be maintained as a definite part of State policy.

It is obvious that individual schemes will have to be introduced to meet the diverse conditions surrounding the marketing of particular products.

The first step and the indispensable one in improvement of marketing arrangements for primary products is the organization of concerted action among the producers. Organizations of producers can make known their needs and take steps towards the removal of their disabilities in a much more effective manner than can individual producers working alone. By combination, producers gain very great weight in trading, and are often able to improve their position considerably by simple negotiation with the business interests involved.

(b) CO-ORDINATION WITH EXISTING INTERESTS.

It may be emphasized that in Tasmania, as in other countries and States, distribution through existing channels of trade should not be departed from without careful consideration. The machinery by which the Commission suggests that orderly marketing could receive the beneficial support of existing institutions is discussed in a later portion of this Report.

The basic principle to be aimed at in achieving improved marketing methods is that of a rapprochement between all sections of the people for the benefit of the whole community, and a frank recognition of the rights of each based on mutual confidence and understanding.

A report issued in October, 1927, by a Committee appointed by the Empire Marketing Board defines the objects of a co-operative marketing as follows :—

The main aims of co-operation among farmers in marketing are to secure economy of marketing with the best results to producer and consumer by—

- (1) abolition of the waste of overlapping where a large number of agencies are handling the product ;
- (2) the elimination of excessive margins of profit by middlemen ;
- (3) grading and standardization ; and
- (4) orderly marketing for the purpose of levelling fluctuations of prices.

The Commission believes that there is a legitimate field for co-operative enterprise in Tasmania, which is not at present effectively filled by existing organizations.

(c) REGULATORY LEGISLATION.

Co-operative associations have a special position and function in the community, and should be regulated by legislation drawn up in accordance with their needs. The regulations contained in the Companies Acts do not meet this need.

It is recommended that special legislation be devised for this end, on the lines already in force in States on the mainland, and as discussed in considerable detail with the Tasmanian Government.

The features of such legislation vary greatly in detail in different countries, but the following salient points are here noted for consideration.

It is not recommended that all these suggestions should necessarily be adopted in Tasmanian legislation, but each should be considered in the light of its applicability to Tasmanian conditions when the necessary legislation is being drafted.

The Act should, in the first place, create the post of Registrar, whose business it would be to keep an official register of Societies and Companies, and to register only such Societies and Companies as are organized in conformity with the provisions of the Act.

Consideration should be given as to whether the use of the word "co-operative" in titles of businesses or private firms should be prohibited under the Act, except for such businesses or firms as have completed registration under the Act.

A careful definition of co-operative societies or companies should be included in the Act; this definition should provide that they are organized on the usual principles of voluntary co-operation, among which may be considered:

- (1) Each member to have an equal voice in the affairs of the Society or Company—"One man one vote." If any modification of this is found necessary, provision should at least be made that no member-shareholder should have more than five votes, the object of this being to provide against any possibility of a combination of a few large shareholders to dominate the business.
- (2) Interest on share capital must be limited to, say 6 per cent.—in any case, not more than 8 per cent.
- (3) Societies or Companies should be permitted to create a Reserve Fund, but should be obliged to distribute all surplus, beyond the amount required for this purpose, to their member-shareholders, in proportion to the amount of business done by each Member.
- (4) Membership in a Society or Company should be open to all within the Society's sphere of operations, and become effective on the purchase of one share.
- (5) Business shall be done for members only.

Societies and Companies registered under this Act shall be exempted from Income Tax.

Upon the infringement of any of the provisions of this Act by a registered Society or Company, the Registrar shall have the power to appoint a Liquidator, at his discretion.

Societies or Companies in drawing up their Articles of Association, shall conform in all essentials with the model rules of this Act, furnished by the Registrar.

Societies and Companies must forward to the Registrar annually their rules and balance-sheets and such other information as the Registrar may require, who has also the power of a compulsory inspection at any time; accounts must be open to the inspection of members at any time.

(d) LEGISLATIVE CONTROL OF MARKETING—"COMPULSORY CO-OPERATION."

Throughout the world there is a growing feeling among co-operators that they should be assisted by legislation to control the marketing of their particular products.

In two Australian States legislation has been provided whereby a clear majority of producers of any commodity can by vote take complete control of the processing and marketing of that commodity. When such a majority of producers decide to vote for this step all parties concerned in the production and distribution of that product within the State become bound by it.

Opinion is by no means unanimous as to the soundness of these measures and, in any case, for their success they call for a high degree of knowledge of co-operative activities among producers. The Commission is of opinion that it is inadvisable to introduce such legislation until a strong and general demand arises among producers, and until producers are sufficiently advanced in concerted effort to wisely administer such schemes.

(e) THE AGRICULTURAL BUREAU.

The initiation of co-operative associations for any particular purpose must be undertaken by the producers themselves. The functions of Government in this connexion appear to lie in the provision of suitable legislation under which such associations may operate, and in the provision of technical advice to producers' organizations through the officers of the State Agricultural Department.

In Tasmania, the primary producers have already organized themselves for general purposes into an Agricultural Bureau. *The Commission believes that this organization must be the motive power in the initiation of marketing schemes as well as in the rehabilitation of Tasmanian agriculture in its other phases.* Through the Bureau, producers will be able to maintain effective touch with the various State instrumentalities designed to help them, and will be able to make known their collective requirements to traders, to State and Federal Governments, and to the public generally. The task is so great, so many-sided, and so vital, that the Bureau must employ an energetic high-class man as its permanent executive officer, and, in addition, an officer skilled in the detailed knowledge of marketing arrangements. These officials would afford the necessary co-ordinating centre for the endeavours of the producers to organize themselves for the improvement of marketing methods and would assist in maintaining fullest touch with the State Agricultural Department and its experts.

When co-operative associations are in operation, a certain amount of supervision is necessary to ensure that a high degree of efficiency is maintained, and that the policy adopted by the management is in the best interests of shareholders. This supervision is best effected by means of the Registrar demanding from the Companies periodical statements of such statistics as will reveal these aspects. The facts revealed by such statements would, however, not be apparent to the average producer. The Marketing Officer of the Agricultural Bureau should have the duty of interpreting these statements for the benefit of the producers.

Suitable salaries to officers of the quality necessary will involve the Bureau in a considerable annual expenditure. This money should be found by the producers if the Bureau is to maintain an attitude of independence of other interests in representing those of the producers. Many producers are not at present in a position to provide their contributions, and in order that the development of this vital organization may not be delayed by lack of money, it will be advisable for the Government to subsidize producers' contributions in the earliest stages. Such assistance should, however, be for a strictly limited period of five years, and the absolute necessity for the eventual complete financial independence of the Bureau must always be kept in view.

(f) CO-ORDINATION OF MARKETING.

As the producers of any individual commodity gain experience in the benefits of working co-operatively among themselves, they will begin to realize the benefits to be obtained from extending their sphere of co-operation to concerted action with producers of similar commodities in other parts of Australia and with producers of other commodities in Tasmania.

Co-operation between producers in different States may go far to prevent the disastrous results of the dumping of surpluses in one State on markets already sufficiently supplied in another ; also a free interchange of statistical, technical, and trading information over the Australian field of production should rapidly improve the efficiency of the industry.

In overseas and Australian trading the interests of all Australian producers are so much linked up that obviously an Australia-wide organization must carry great benefits, and should be ranked as an ultimate objective at which to aim.

With regard to co-operation between organizations of producers of different commodities in Tasmania, the field is equally important. There is no reason why, for instance, one representative in a consuming centre in another State should not act for several different products. Such organizations of producers, working in unison, would also be in a position to arrange more favorable terms for shipment, finance, and many other services, and also to make recommendations to the Government in respect of matters of common interest.

In this last field of co-operation between producers of different articles within the State, the Agricultural Bureau should form an ideal centre. It should also be able to assist in the establishment of interstate relations by correspondence and conference with similar bodies in the other States.

(g) SAFEGUARDING THE INTERESTS OF OTHER SECTIONS OF THE COMMUNITY.

A need will also arise for an authority capable of estimating the effect of any proposals on the interests of consumers and other business concerns. This authority should be competent to negotiate between the producers and such existing institutions or proprietary concerns as may be in a position to give the requisite services in the manner most beneficial to producer and consumer alike. Such activities would go far to prevent unnecessary friction or wasteful expenditure of energy and money, arising from the launching of co-operative schemes that would serve no immediate need.

For some years past there has been in existence in Tasmania a body called the State Development Board, constituted of leading public officials and leading citizens charged with the duty of " reporting upon and advising the Government upon all schemes and suggestions submitted to them in regard to developing the resources of the State."

The Board has recently been provided with a full time executive officer, and will render invaluable aid in the ensuring of consideration for the interests of all sections of the community.

(h) AGRICULTURAL DEPARTMENT.

A most important form of governmental activity is the technical advice that is placed at the disposal of producers' organizations by experts in the service of the State Agricultural Department.

The Department realizes that the closest touch should at all times be maintained between the production and the marketing sides of primary industry. Any separation of these sides must inevitably reduce efficiency.

In this connexion may be noted the experience of an organization of this nature in another part of the Empire. Mr. Dunning, Premier of Saskatchewan, in his speech to the Conference on Agricultural Co-operation in the British Empire, held at Wembley, July, 1924, referred to the work of the Co-operation and Markets Branch of his Agricultural Department, in the following terms :—

“ This branch is a service branch, not a forcing propaganda branch. You cannot force the spirit of co-operation ; it must be present ; but if it is present in a chaotic unorganized way, the State can, by well-considered careful methods, help it and bring it to a successful issue.”

(i) FINANCE OF CO-OPERATIVE ORGANIZATIONS.

The provision of finance for the proposed co-operative associations presents a particular problem in Tasmania. It would not be to the benefit of the Tasmanian State that market re-organization should be delayed indefinitely by reason of the absence of financial assistance.

It is an important function of the Rural Bank to assist these cases, and the Bank under a sympathetic administration will probably be able to do so in most instances. Where, however, the condition of the producers is so backward or the scheme is of such an experimental nature that the bank cannot safely so act, it would appear necessary for the Government, acting upon expert advice in each case, to assist.

The Rural Bank might advance a capital sum on the security of the uncalled share capital of the individual members of the particular marketing or processing organization, the State Government entering into a guarantee to make good the losses, if any, suffered by the Bank in the course of the transaction.

Prior to entering into such a guarantee, it is desirable that some authority, such as the State Development Board, advise the Government as to the utility and prospects of success of the proposed organization. The actual financing of the proposal, if approved by the Government, would be under the control of the Directors of the new Bank.

(j) THE STATE DEVELOPMENT BOARD.

It must be again emphasized that, under the conditions extant in Tasmania at the present moment, the work of agricultural reorganization, both as regards production and marketing, will be a task of some magnitude.

The Commission believes that the primary producer in Tasmania is willing to make serious efforts for his own betterment in both directions. The question of adequate guidance, in the realms of business and finance, is one that may prove critical to the future prosperity of the State.

As has been stated before, the State Development Board will prove an instrument capable of bringing all the interests concerned into a common endeavour.

The Commission believes that the State Development Board will be able to function efficiently in this field now that it is provided with a full-time Chief Executive Officer.

The functions attendant on work of this description would cover such a large portion of the field of Tasmania's economic problems that the services of an officer of this nature could be extended to acting as an economic adviser in such matters as the Tasmanian Government considered desirable. In particular the Chief Executive Officer of the State Development Board could act as a liaison officer between the Tasmanian Government and this Commission in respect of any developmental policies, wherein the Commission were desired to render such assistance as lay within its power.

PART IV.—CONCLUSIONS AND RECOMMENDATIONS.

CONCLUSIONS.

In its first Interim Report, the Commission considered the question of the extension of scientific knowledge among agricultural producers, and made recommendations for a proposed re-organization of the Tasmanian Agricultural Department to meet that end. In the present Report the problems of Finance and Marketing, as they appear to touch the primary producer, have been considered, and recommendations made concerning the organization required to meet these needs.

It is apparent that the details of the creation of such of these instrumentalities as are approved, and the uses to which they are subsequently put, are matters of State policy and responsibility.

In its work in Tasmania the principle adopted by the Development and Migration Commission is to assist in each case by recommendations for organization, and as and when required by the provision of expert knowledge from within itself, or by arrangements from other parts of Australia, or from other countries, but not to undertake work of supervision or administration. It is agreed between the State Government and the Commission that this policy will render Tasmania self-contained in the administration of its own development policy, which is the only method by which the State can function satisfactorily.

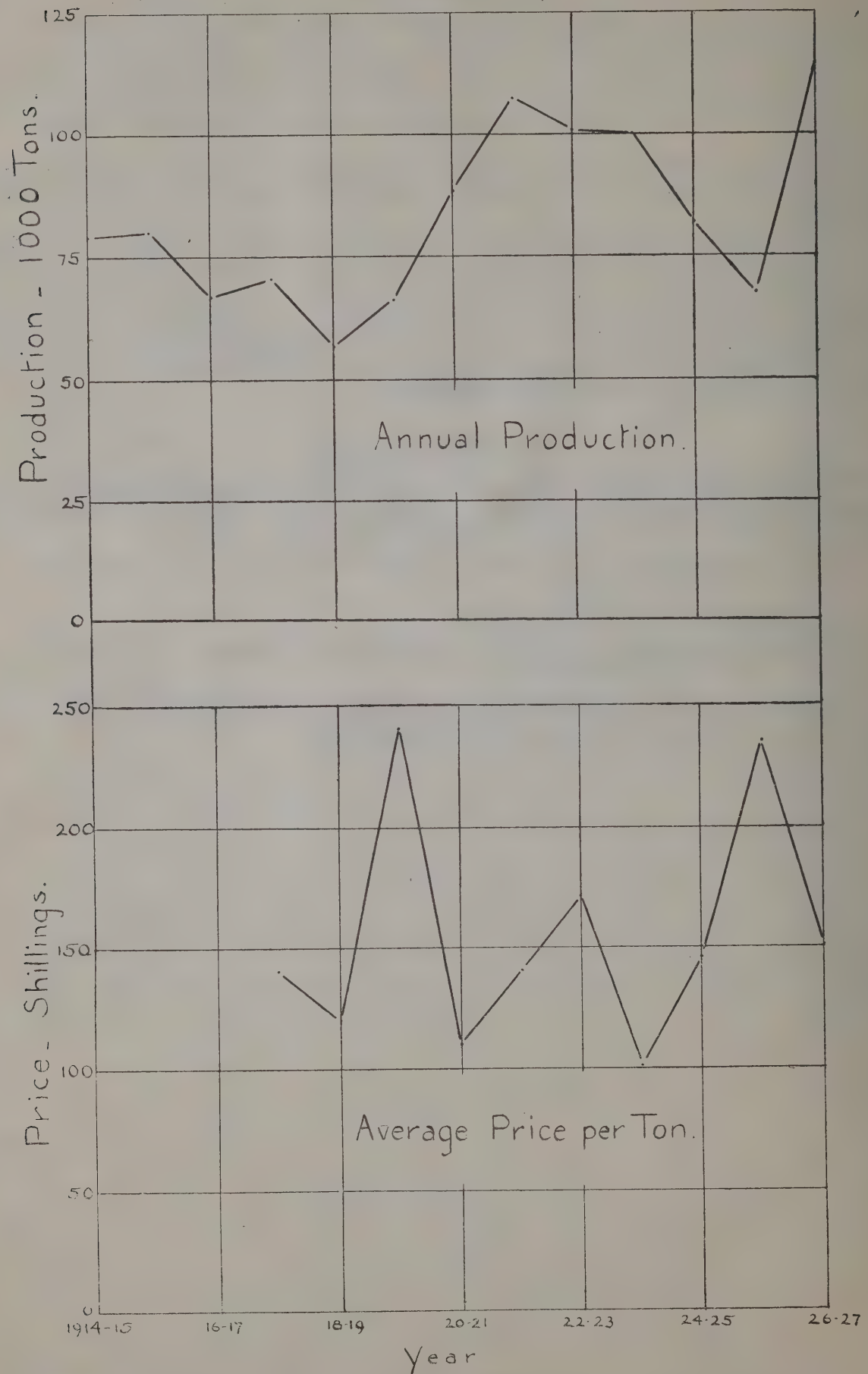
RECOMMENDATIONS.

The Commission considers that in order to provide the necessary financial and technical assistance for the rehabilitation of primary production in Tasmania, the following steps will be necessary in addition to those recommended in the first Interim Report:—

1. *Encouragement and temporary financial assistance in the development of the Agricultural Bureau.*
 2. *Extension of rural credit facilities.*
 3. *The introduction of legislation to facilitate the formation and control the operation of Co-operative Societies.*
 4. *The utilization of the State Development Board with a full-time Chief Executive Officer as Economic Adviser to the State Government.*
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APPENDIX I.

Tasmanian Potato Crop - 1914-1927.



NOTE.—Drop in price following high production and vice versa.

APPENDIX II.

REPORT OF THE COMMITTEE ON RURAL CREDITS IN AUSTRALIA,
27TH APRIL, 1927.COMMITTEE ON RURAL CREDITS IN
AUSTRALIA.

PERSONNEL.

- Mr. R. R. ENFIELD, of the Ministry of Agriculture and Fisheries, London (*Chairman*).
- Mr. G. G. BARNES, His Majesty's Treasury.
- Mr. J. R. COLLINS, Financial Adviser to the High Commissioner for Australia.
- Sir JAMES A. COOPER, K.B.E., Chairman of the London Agencies of the Commonwealth Dried Fruit Board and the Commonwealth Dairy Produce Board.
- Mr. A. E. GOUGH, General Manager of the Overseas Farmers' Co-operative Federations Limited.
- Mr. CHRISTOPHER TURNOR, Member of the Oversea Settlement Committee.
- Secretary*: Mr. C. P. QUICK, of the Ministry of Agriculture and Fisheries, London.

REPORT.

To The Right Honorable L. S. AMERY, M.P., Secretary of State for Dominion Affairs and Secretary of State for the Colonies.

SIR,

At a meeting of the Australian Unit Committee of the Oversea Settlement Special Sub-Committee of the Imperial Conference held on 4th November, 1926, the subject of rural credits in the Commonwealth was discussed, and it was arranged that steps should be taken to secure, for the information of the Australian Development and Migration Commission, a report thereon from a Committee composed of representatives of Great Britain and Australia and of co-operative organizations.

2. The Committee have met on thirteen occasions, and have given the matter referred to them their careful consideration.

3. The Committee were unfortunate in losing the assistance for part of the time of Mr. Gough, owing to illness, but his place was taken by Mr. W. J. McArthur, Secretary of the Overseas Farmers' Co-operative Federations, Limited. Mr. Collins was also called abroad before the Report was completed. The last section of the Report, dealing with Production Credit, is, therefore, included without Mr. Collins having had the opportunity of reading it, although the Committee believe it to embody the opinions which he expressed when this aspect of the question was under discussion. The sections on Long-Term and Marketing Credit have received some minor amendments since Mr. Collins saw them.

4. In the following pages we have endeavoured to correlate the schemes of agricultural credit in force in Australia with the practice in other countries, and have made certain suggestions for the consideration of the Australian Development and Migration Commission* in regard to the development of the present system in the interests of the primary producer, the States, and the Commonwealth.

5. In doing so, we wish to call attention to certain general considerations:—

- (i) In our view it is not possible for a Committee situated as we are to do more than examine the broad outlines of this problem. Detailed information in regard to the existing practice is not always available; local considerations arise which we are not in a position to investigate; and the most we feel able to do is to indicate particular aspects of the question which, with our recommendations, might profitably be considered.
- (ii) We have not thought it necessary to set out in detail the agricultural credit systems of other countries. These have been the subject of investigation by experts on several occasions, and the bibliography at the end of our Report (Appendix II.) calls attention to sources of information on this subject.
- (iii) In what is written below, we have had in mind the small primary producer who does not possess a large amount of capital, rather than the large pastoralist. The considerations which apply to the one are not always applicable to the other; and in general it may be doubted whether (apart from the peculiar problem of marketing) the large farmer stands in need of additional credit facilities.
- (iv) We have kept in mind that our observations should be directed to those aspects which are likely to be of interest to the Development and Migration Commission and the Commonwealth and State authorities, and have only referred to the existing practice of the various States where that was necessary to illustrate a general argument.

6. We have arranged our observations under the general headings of (a) Long-Term, or Mortgage Credit, (b) Marketing Credit, and (c) Production Credit.

A.—LONG TERM, OR MORTGAGE, CREDIT.

7. At the outset we wish to call attention to a question of principle which seems to us to be fundamental to the consideration of this part of our subject, viz., the degree to which the credit of the State should be employed in securing the necessary funds out of which loans to agriculture are made.

8. The Commonwealth and State Governments appear to have before them two main problems in regard to long-term rural credit—one is the financing of new settlers, and the other is the arrangement of a satisfactory credit system which will become a permanent part of the organization of agriculture within the Commonwealth. As regards the former question, it may well be that direct State assistance is, and will continue to be, inevitable (though in principle we think that the new settlers should be financed in the same way as others). On the other hand, the question of the extent to which the resources of the State should be involved in the permanent machinery of agricultural credit calls for careful consideration.

* Appendix I. sets out the references to the Committee.

9. Most long-term agricultural credit systems depend on money raised by the issue of bonds or debentures secured upon mortgages on land. In several countries such bonds carry with them some form of guarantee by the State. In the United States, and to a small extent elsewhere, land bonds, while not being guaranteed by the State, are exempt from taxation. In France, agriculture is heavily subsidized by means of funds provided by the Bank of France free of interest. In Ireland, agricultural credit has in the past received financial assistance from the State, and under the proposals contained in the Second Interim Report of the Banking Commission in Southern Ireland, 1926, a State guarantee of the capital and debentures of the proposed agricultural credit corporation is suggested. In some countries the State guarantee has been applied only to the interest on the money borrowed. In the case of several older countries, e.g., Great Britain, Belgium, Denmark, and Holland, the credit of the State is either not directly involved or financial assistance is only given within modest limits. The post-war agricultural credit system in Germany is complicated, and for a description of it we would refer to the Report* of the New Zealand Royal Commission on Rural Credits.

10. In the case of new and developing countries, however, where the case for State assistance seems much stronger than in the older countries, many examples are to be found. The bonds issued by the National Bank of the Argentine are fully guaranteed by the State, and a similar system exists in Uruguay. In Chile, although there is no statutory guarantee of the bonds issued by the Mortgage Credit Bank, the Government publishes the fact that it is behind the bank. The funds of the Land and Agricultural Bank of South Africa, the main object of which is to make advances to individual farmers against the security of first mortgages on agricultural or pastoral land, and to agricultural co-operative societies against the security of the joint and several guarantee of the members for the society's debts, are from time to time augmented by Government grants. In New Zealand, under the Rural Advances Act of 1926, the bonds issued by the Rural Advances Branch of the State Advances Office are countersigned by the Secretary to the Treasury. We refer to this matter in paragraph 26 below.

11. The objections to exemption from taxation are summarized on page 9 of the Report of the New Zealand Rural Credits Commission. In regard to State or Government guarantee of agricultural securities, objections are widely entertained on grounds which may be summarized as follows:—

- (a) A State guarantee, when used to provide loans at a lower rate of interest than would otherwise have to be paid, involves in effect a subsidy to agriculture, and it is thought by many that it would in the long run prove a mistake to make the machinery of long-term credit a means of conveying such a subsidy;
- (b) Agriculture, like any other industry, should raise its capital upon the inherent value of its assets and resources;
- (c) From the point of view of public finance, a system involving such guarantees is undesirable, because as the volume of credit grows it diminishes the power of the State to borrow for ordinary public purposes, and tends, therefore, to increase the cost of such borrowing, which has to be borne by the taxpayer.

12. On the other hand, it is obviously unlikely that any system which rests solely on the security of land mortgages can borrow money so cheaply as one which is guaranteed by the State. In some instances (as, for example, in the United States, where the system has become well established) bonds which do not carry any

such guarantee have been sold at prices upon which the yield is only slightly above that of Government stock, but in general, State credit is the cheapest, and it is almost impossible that a purely self-contained system could in its early stages compete with one which carried a State guarantee on its bond issue.

13. As regards Australia, we feel that to decide between a system which receives financial assistance from the State and one which does not is a question of policy which is not one for this Committee; we propose, therefore, to discuss both alternatives, and to consider whether there may be any possible compromise between the two.

14. We have received from the Agents-General of the State Governments information as to the existing facilities for long-term rural credit in Australia. It has not been possible for us to obtain the information in as full a form as we had hoped, but it has been sufficient to give us a general view of the present machinery. So far as published information is available it seems clear that the bulk of mortgage loans are at present made through State institutions and out of funds which are either provided by the States or guaranteed by them.

15. Apart from direct loans made by Governments for special purposes, the principal institutions making long-term loans appear to be the State Savings Banks or Agricultural Banks, namely:—

New South Wales.—The Rural Bank Department of the State Savings Bank.

Victoria.—The "Crédit Foncier" Department of the State Savings Bank.

Queensland.—The Agricultural Bank.

South Australia.—The State Savings Bank.

Western Australia.—The Agricultural Bank.

Tasmania.—The Agricultural Bank.

16. In addition to the loans made by these institutions, there are those made by the State Governments under several Acts of Parliament for settlement and other purposes. It is not necessary to enumerate them in detail. The line of demarcation between the functions of the State Bank on the one hand, and on the other the Board or Institution through which direct State advances are made, does not appear to be drawn at the same point in all States. We conceive that the State Bank is primarily concerned with advances which are related to permanent phases of rural life, whereas the direct advances made through Settlement Boards are related to the initial settlement of individuals upon the land. As regards this we suggest that it might be worth while to consider whether the financial functions now assigned to Settlement Boards could not with advantage be transferred to the State Banks, and whether the money now raised directly by the State for settlement purposes could not be raised by the issue of debentures open to public subscription.

17. Setting apart the specific question of financing new settlers, we propose to consider those facilities which may be regarded as forming part of the permanent agricultural credit system.

18. Obviously to the farmer the advantage of borrowing through State institutions is the relatively low rate of interest he has to pay. To take the State Savings Bank of Victoria as an example, according to the report of the bank, the average rate of interest payable by borrowers from the "Crédit Foncier" Department at 30th June, 1926, was £6 ls. 8d. per cent. This, we understand, is lower than the rate which is charged by joint stock banks on loans by way of overdrafts secured upon land. The loanable funds are derived mainly from issues of what are termed "debentures" and "Crédit Foncier debentures," made at different dates and carrying rates of interest varying, according to the conditions obtaining at the time of borrowing, from 3½ per cent. to 6¼ per cent. The average rate of interest

* See Appendix II.

on such securities at 30th June, 1926, is stated to have been £5 6s. 11d. per cent. All these funds are guaranteed by the State, and the rate of interest on such issues presumably represents the cheapest rate of borrowing available at the time. Had there been non-State institutions of the type existing widely in Europe issuing debentures for the same purpose without any Government guarantee, there is no doubt that they would have had to offer a higher rate of interest in order to secure the necessary funds. From the point of view of the farmer, these conditions are highly satisfactory. But taking a longer view of the matter, we think that the State Governments will have to consider whether they are prepared to contemplate an indefinite extension of this form of State assistance to agriculture; whether, in other words, a large and increasing amount of capital employed in agriculture should continue to be secured upon the credit of the State, or whether agriculture should raise its capital on the security of its own inherent wealth. If no objection is felt to such an extension of State credit, then we do not think that on this part of the subject there is any recommendation of general character which we can usefully make. It would seem that the Australian farmer has adequate facilities for obtaining long-term loans on conditions which compare favorably with those of many other countries, and are superior to some.

19. On the other hand, if it were felt that it would be necessary, sooner or later, to free rural credit from its dependence on the State, various methods of procedure seem possible. One would be to establish credit organizations of the type of the "Landschaften" and the Mortgage Credit Banks which have been so successful in Germany and other European countries, or of the type of the Federal Land Banks in America. The essential feature of the "Landschaften" and the Federal Land Banks is the co-operative principle which they embody. The "Landschaft" is an association of borrowers issuing bonds based on the security of estates mortgaged in its favour. The bonds are not issued on the security of specific properties, but the guarantee behind them is the collective guarantee of the whole of the members. Similarly, the twelve Federal Land Banks in the United States of America do not make loans secured upon specific properties, but through National Farm Loan Associations, i.e., associations of farmers who are organized for borrowing collectively. The Farm Loan Association is co-operative in the sense that each member has a limited liability for the mortgage debt of the other members. The Federal Land Banks are co-operative in the sense that they are jointly liable for the principal and interest of each other's bonds.

20. Another method would be to establish organizations on the lines of the Joint Stock Land Banks in the United States. These banks, in contrast with the Federal Land Banks, lend money on specific properties, and do not possess the co-operative features of the latter, but, like them, are free from State guarantee. Their progress has been rapid, notwithstanding the fact that loans contracted through their agency carry a higher rate of interest than those obtained from the Federal Land Banks.

21. Although we believe that the co-operative principle underlying the "Landschaften" and the Federal Land Banks is the best that has been devised, we doubt whether it would be possible in the case of Australia to apply it in either of these forms. In the first place, the co-operative principle implies the will to co-operate for credit purposes, and it has yet to be determined whether this principle commends itself to the farmer in Australia. In the second place, the establishment of such institutions is primarily a matter for private enterprise; the most that the State could do would be to pass the necessary enabling legislation. But private enter-

prise is hardly likely to act in the matter, in the face of competition from State institutions, on account of the difficulty of raising the necessary funds at an equivalent cost. Moreover, the State Banks have no doubt already become well-established institutions, recognized by the farmers as a source of long-term loans.

22. It seems to us, therefore, that the best course would be to adopt some form of compromise, i.e., a course which would enable the State Banks, if and when it was thought expedient, to free the rural credit machinery from its dependence on State guarantees. If that view were accepted, it would seem desirable to build upon the existing State Savings Banks and other State institutions, rather than to set up separate machinery. Authority should be given, where it does not already exist, to these State Banks to enable them to raise money for the purposes of rural credit, which would be secured solely upon the land and its equipment.

23. It appears to us that one of the primary aims of such a system would be to create in the debentures of the Rural Departments of the Banks an agricultural investment which would gain the confidence of the investing public, so that the necessary funds might be raised at a reasonable cost. That appears to be the crux of the problem, once it is sought to establish the finances of agriculture on a basis of real economic independence.

24. One of the chief disabilities of agriculture in comparison with other modern organized industries is its relation to the investing public. Like other industries, it should be able to attract the savings of the private investor, and, like them, it should be able to offer for this purpose some kind of standard investment. In other words, the creation of a standard agricultural investment seems to us one of the most important steps to be taken in the modern organization of agriculture. In a country such as Australia, where agriculture plays such a large part in the economic life of the Commonwealth, this question seems to be of even greater importance than in those countries which depend to a larger degree on their manufacture and commerce. It is only necessary to examine the structure and organization of the Federal Land Banks of the United States of America to see how constantly this idea has been present in the minds of the creators of that system. Their aim has been so to organize the credit machinery that public confidence in the Land Bank bonds will be gained by reason of the inherent soundness of the investment, and not because the real security behind the bonds is the State.

25. The question is not an easy one, and, no doubt, for this reason certain countries have fallen back on the comparatively simple method of State guarantees. Nevertheless, it is a real economic problem the importance of which is likely to increase as the total volume of capital employed in agriculture grows.

26. We suggest, therefore, that consideration might be given to the possibility of the State Banks ultimately issuing debentures to the public without any State guarantee. This would have to be done when monetary and other conditions presented a favorable opportunity, but, in the meantime, steps could be taken to prepare the way. We would call attention to the Rural Advances Act* passed in 1926 by the New Zealand Parliament, section 8 (1) of which, read in conjunction with section 7 (1), seems to indicate an attempt to move in the direction of minimizing the dependence of the bonds upon the State. The Bank of New Zealand Act 1926* appears to represent a similar step in this direction. A possible course in Australia might be for each of the various lending institutions to issue debentures secured in the first instance solely on the assets of its rural department, the chief of which would be its land mortgages. But for the time being it might be

* As both of these Acts are of such recent date it has not been possible to obtain a report on the operation of the schemes which they embody.

arranged that the debentures should receive the endorsement of the State Government subject to such conditions as it thought fit to impose.

27. Attention would then have to be given to strengthening the value of the debentures on the investment market. It is scarcely necessary to point out that this value must depend on:—

- (a) the valuation of the property;
- (b) the proportion of the individual loan to the value of the property upon which it is secured;
- (c) the efficiency of the borrower;
- (d) the method of amortization;
- (e) the capital and reserves of the banks and the proportion these bear to the debenture issue.

These matters are fairly obvious. But we think consideration should also be given to three further points:—

- (i) How far the co-operative principle might be incorporated;
- (ii) How far it might be possible to approach uniformity between the various States in regard to the rural debentures;
- (iii) Whether a central co-ordination or the activities of the State lending institutions is desirable and feasible.

28. In regard to the first, we can only repeat our belief that, in theory, the co-operative method is overwhelmingly the best. In practice, its success rests almost wholly on the willingness of individual farmers to adopt this method. There seems no doubt that the rural population of central European countries have shown greater aptitude in the co-operative organization of credit than elsewhere. In the United States of America, for instance, the successful competition of the Joint Stock Land Banks* with the Federal Land Banks seems to indicate a preference on the part at least of some American farmers for an individual, rather than a co-operative system. What is likely to be the attitude of Australian farmers we are not in a position to say. Australia has done some pioneer work in other branches of agricultural co-operation, but co-operative credit—the mutual guaranteeing by co-operators of each other's liabilities—involves a very different kind of engagement from that associated with co-operative marketing. However this may be, our recommendation is that if there is felt to be a reasonable prospect of success, the formation of co-operative farm loan associations should be considered, and that mortgage loans should be made by the State Banks through their agency.

29. It is necessary to bear in mind that organizations of this kind have an additional advantage in helping to bring about an improved standard of cultivation. The members of a co-operative credit association, having a financial interest in the success of those farmers who borrow through the association, tend to exercise a careful watch over the undertaking which provides the security for the loan.

30. As regards (ii) and (iii), it appears to us that in many ways it would be advantageous if the procedure as regards long-term agricultural credit in the various States were as nearly identical as possible, and the efficiency of the system would be further promoted if a standard form of agricultural mortgage, and standard bonds or debentures, could be devised for the whole of the Commonwealth. To do this would probably involve some measure of co-ordination or central control. How far the Commonwealth Government could take part in promoting such co-ordination we do not know, but we suggest that the Commonwealth Government might consider, in consultation with the State Governments, the advisability of constituting some central governing Board, similar to the Federal Farm Loan Board in the United States, empowered to make rules for the grant-

ing of mortgages and the issue of debentures, and otherwise to supervise the work of the lending institutions. In all these matters we would recommend a close examination of the Federal Farm Loan System in America, which provides a working example of the type of organization we have been suggesting, and about which fully descriptive information is readily available.

B.—MARKETING CREDIT.

31. Under this heading we include that type of credit which provides finance for the primary producer during the period of transit of the produce, its storage, and up to the time of sale.

32. The problems associated with this part of our subject fall into two divisions, according to whether the produce is marketed in Australia or overseas. As regards the former division, we have no reason to suppose that the credit facilities afforded are inadequate. The credit is required for relatively short periods, and clearly falls within the normal scope of joint stock banking.

33. On the other hand, the credit problems concerned with the financing of primary produce during the period between shipment and the completion of sale in the United Kingdom present several features of importance. We have felt it unnecessary to describe in detail the machinery of overseas marketing, as this is well known, and has received considerable attention at the hands of committees, and notably from the Imperial Economic Committee, 1926. That Committee also devoted some attention to the question of marketing finance, and the following extracts taken from their Fourth Report (Cmd. 2725) on Dairy Produce will serve to illustrate the trend of their conclusions:—

“ 151. The dairy produce trade, in contradistinction to what we found in the case of the fruit trade, is financed on the usual basis adopted for the majority of other commodities. Consignments of dairy produce shipped to the United Kingdom from the Overseas Dominions are sold by importing houses in the United Kingdom on commission, or are purchased outright, either on a c.i.f. or f.o.b. basis, full payment being made to the supplier against documents. Where the product is handled on consignment, the importer is usually prepared to advance to the shipper anything up to 75 per cent. or 80 per cent. of the value of the produce, against the delivery of documents.

“ 152. So far as we are aware, no serious complaint has been made against this system whereby the United Kingdom importer finances the trade. We understand that with the coming into full operation of the Dairy Produce Control Board in New Zealand no change is contemplated in regard to the financing of butter and cheese. Importers are willing to continue to finance the produce in the recognized manner, although provision is made for the New Zealand factories to obtain financial advances through official sources should they desire to do so. A similar situation exists in Australia, where the Australian Government has made arrangements under the Commonwealth Bank (Rural Credits) Act of 1925, to finance producers' organizations in Australia in the marketing of their produce. This is not in substitution for the existing financial arrangements where the parties concerned desire to maintain them; it is to supplement the existing system.

“ 163. . . . Importers who purchase naturally take all the risks of the market. Where sale is on a commission basis the importer charges 2 per cent. to 2½ per cent. In the latter class of business, agreed advances are made to shippers by importers, or their agents, ranging from 60 per cent. to 80 per cent., and sometimes rising as high as 90 per cent., of the estimated value.

* We would, however, call attention to the criticism of these institutions on page 25 of the Report of the New Zealand Commission.

"164. We understand that no advances are made by English importers to Danish butter sellers. Denmark is so close to the United Kingdom that business is normally completed and payment made in one transaction. We recognize that the distance of New Zealand and Australia from the market places them in an essentially different position from Denmark. None the less, we look to see ultimately develop a system which will render the overseas producer as little dependent as the Danish producer upon the importer in the United Kingdom for the financing of his produce. This should be possible as soon as adequate facilities for financing the trade have been provided in the producing country.

"165. In our Report on Fruit* we draw attention to the fact that importers frequently operate in a dual capacity—they sell some goods on consignment as the agent of the producer, and other goods on their own account for a profit. The importer is anxious to obtain a remunerative return on his own goods, and naturally tends to give them a preference over the produce he is selling on consignment. In the presence of fluctuating prices, moreover, he is specially anxious lest he should lose on the produce which he has purchased and owns. We believe that the same situation holds in regard to dairy produce. In principle we cannot agree that such a position is satisfactory. In those trades which are highly organized, as, for instance, the buying and selling of stocks and shares, such a competition of interests on the part of a single firm is forbidden, and the functions of merchant and commission salesman are kept apart. Other things being equal, we think that the overseas producers' organizations when selling in the United Kingdom should consider the advisability of giving their preference to dealers who are prepared to sell on commission only, and do not operate in both capacities. We recognize, however, that this must be a matter of gradual evolution."

34. As regards these extracts we would observe:—
(1) that whilst they are directed mainly to the marketing of dairy produce, they are generally applicable *mutatis mutandis* to the marketing of most other primary produce. (2) That the method of disposal by sale outright to the merchant through the medium of forward contracts is apt to be employed by the producer to dispose of his earlier shipments with a view to covering existing liabilities, the consignment method being employed for later shipments. When the method of disposal by forward sale is adopted, the purchase price is necessarily dependent upon the merchant's forecast of the market, and an additional element of speculation is thereby introduced.

35. Turning now to a general consideration of the problem of overseas marketing finance, we think that, broadly speaking, there are two purposes which marketing credit should serve:—(a) The credit facilities should be such as to provide the producer with a reasonable advance on the produce when ready for marketing or shipment; and (b) they should be sufficient to ensure the orderly marketing of the produce after it has left the hands of the producer. As regards (a), we gather that in the existing circumstances the advances are seldom less than 75 per cent. of the estimated value of the produce, which we regard as reasonable. The really important point, therefore, is the second. Orderly marketing has recently become a subject to which a great deal of attention has been devoted, not only in Australia and New Zealand, but in the United States, Canada, and elsewhere, and it is certain that an adequate credit system is essential to the promotion of an orderly flow of agricultural produce to market, particularly when the market is overseas.

36. It has been represented to us that the present credit system could be improved in two directions:—

- (i) The arrangement under which an importing firm combines the functions of merchant and commission salesman is open to objection. On a falling market the merchant would not unnaturally devote more attention to the liquidation of his forward contracts than to the sale of his consigned produce, with the result that the producer might not obtain the full benefit of the market. On this point we endorse the view expressed by the Imperial Economic Committee in the extracts quoted above.
- (ii) Further, it has been represented to us as a defect that control of the marketing of consigned produce should be so largely vested in the hands of firms which have advanced money against the produce. On the latter point again we find ourselves substantially in agreement with the views expressed by the Imperial Economic Committee.

37. While the arrangement by which firms advance a substantial proportion of the estimated market value is without doubt in the producer's interest, it would clearly be undesirable if the making of such advances were to lead to his interests being ignored when the produce is finally sold.

38. The alternative to this procedure is to transfer the financial responsibility from the merchant to the producer, or producer's organization. In our opinion, adequate facilities for this already exist. On the one hand, the *Commonwealth Bank (Rural Credits) Act* 1925 provides (section 60 A.B.I.) that:—

"advances may be made by the Rural Credits

Department, upon the security of primary produce placed under the legal control of the Bank to

- (a) the Bank or other banks;
- (b) co-operative associations formed under the law of the Commonwealth, a State or a Territory under the authority of the Commonwealth; and
- (c) such corporations or unincorporate bodies formed under the law of the Commonwealth, a State or a Territory as are specified by proclamation."

Section 60 A.B.K. provides further that—

"in lieu of making advances in accordance with the provisions of this Part, the Rural Credits Department may, on behalf of any institution mentioned in section 60 A.B.I. of this Act, discount bills secured upon produce placed under the legal control of the Bank."

Little use of these facilities appears to have been made up to the present time.

39. On the other hand, we consider that there should be no reason why the ordinary banks should not provide similar facilities. In either case, the extension of such facilities appears to depend chiefly on the organization of producers into associations for marketing purposes. As regards the first, the Rural Credits Act does not permit direct loans to individuals, and therefore the organization into associations is a necessary preliminary to the making effective of these provisions. As regards advances by the Joint Stock Banks, we believe, for reasons set out more fully below, that the same conditions largely apply. The question is an important one, and we think that very careful consideration should be given to it for the following reasons:—

40. When the development of agricultural credit in various countries is studied, it is somewhat remarkable to observe how widely it has been thought that the problem can only be solved by setting up new lending institutions. No doubt it has often been unavoidable

to do so, more particularly in the past, when little or no organization had taken place in agriculture itself. Nevertheless, we do not by any means believe that it is always the right way of dealing with the question. In our view the solution of many of these problems lies more in the organization of agriculture for the purpose of borrowing from the existing credit institutions than in creating new lending organizations for the purpose of providing agricultural loans. This is largely the case in regard to the Joint Stock Banks. The provision of marketing credit is a proper function of the banks. They are institutions having control of a large amount of private deposits, and the problem, so far as agriculture is concerned, is mainly one of whether producers of agricultural commodities can so organize themselves as to enable them to obtain, by way of advances secured upon agricultural wealth, the use of an adequate share of the resources of the banks.

So important do we feel this point to be, that we would suggest for consideration that the Development and Migration Commission should invite the co-operation of the Joint Stock Banks in bringing before the producer the need for organization for credit purposes. It might even be desirable to institute an inquiry into the rates of interest in operation in various districts and the methods by which cheaper money might be made available to organized producers.

41. Since the power of primary producers to borrow from the banks depends chiefly on the security they can offer, the question becomes one of how best to mobilize the credit of agriculture for this purpose. Can producers acting through an association offer a better security for money advanced by the bank than they could acting individually? Can they by so doing obtain adequate accommodation to finance the oversea marketing of their produce?

42. In our judgment, the economic importance of associations of producers for marketing lies not only in the direct advantage which they provide in enabling producers to control the selling of their produce, but in the indirect advantage of enhancing their credit position. For example, a marketing association of producers having a contract with its members for the supply of the whole, or a certain portion, of their produce for a number of years, to be marketed through its agency, will possess, not only tangible assets in the shape of the produce under its control, but a certain asset of good will in its contract for continuous supplies in the future. In other words, by associating together in a corporate body for marketing purposes, producers are able to create an asset which as individuals they did not previously possess. Moreover, it is easy to see that in addition to these assets the credit status of a marketing association may be still further improved by the adoption of certain features in its constitution.

43. For example, a proportion of the share capital of the association might remain uncalled, the capital consisting, say, of £1 shares upon which only 5s. is paid up. Again, the gradual building of a reserve fund might be provided for in the constitution. The assets of such an association would then consist of (a) the produce under its control, (b) its contracts for future supplies, (c) its reserves, and (d) its uncalled share capital. On this basis we believe it should be able to obtain adequate accommodation from the Joint Stock Banks. In speaking here of the banks, we do not, however, necessarily mean the Australian banks. If the credit of associations of producers is sufficiently well organized, we think they should seek accommodation wherever it can be obtained most conveniently and cheaply. The very possibility of so doing seems to us only to emphasize our conclusion that the root of this problem lies far more in the organization of agriculture for borrowing than in the provision of new facilities for lending.

44. In this connexion, we may quote the following extract from the Report of the Imperial Economic

Committee of Marketing and Preparing for Market of Foodstuffs Produced in the Overseas Parts of the Empire (Report No. 3, Fruit—Cmd. 2658):—

“ 77. As an individual the grower can offer his personal credit, his orchard, and his fruit as security for the financial accommodation he needs. Ordinarily a man of but small capital, and having had to wait for several years for his first returns, his personal credit and his orchard are for the most part already engaged. His produce is a perishable commodity needing to be transported across immense distances of land and ocean before it finds a market, and liable during such transport to damage, deterioration, and even total loss. The price it will command when it reaches the United Kingdom market is not determinable before shipment or during the time of transit, and is subject to the vicissitudes of a market liable to disturbance by unforeseeable arrivals from other sources of supply. Thus situated, the individual grower finds himself denied the usual banking and financial facilities which producers of other commodities can command, and is tempted to turn to the fruit brokers in the United Kingdom for the advances which will secure to him an early payment on account to meet part of his production and marketing expenses.

“ 78. A co-operative or similar association of growers meets the banker on a totally different basis. The credit of a whole industry is something more than the sum of the credits of its individual members. The claim of the industry as a whole, to receive credit and financial facilities from those whose business it is to finance the export trade of the producing countries will stand on its own merits. Moreover, the risk of deterioration of fruit while in transit could thereby be pooled, and thus distributed over a larger field. And if so distributed over a number of growers so that the loss will fall proportionately on the whole of the export pack, the risk can no longer be quoted as a justification for withholding the ordinary facilities securing to the producer an adequate return for his produce. We look to an ultimate condition of affairs where the fruit-grower will be placed in a position to draw against the produce he has shipped.”

45. We would also call attention to the case of co-operative trading and export societies in Denmark, which furnish one of the best, if not the best, example of the type of organization which we have been discussing in the previous paragraphs. Denmark now supplies about 38 per cent. of the total exports of butter of all countries, and the milk of more than 86 per cent. of the dairy cows in Denmark is transformed into butter by co-operative dairies. It is a common practice of these dairies to obtain their supplies of milk from their members under contracts binding the producer to the society for a number of years (usually ten), according to which he undertakes to supply the co-operative dairy with his whole output, except that portion required for home consumption. Fines are imposed for breach of this condition. All members of the dairies are jointly and severally liable to an unlimited amount for the financial obligations contracted by the society. In turn, these co-operative dairies are linked up as members with central co-operative export associations, the financial obligations of which are jointly guaranteed by the member societies; the member societies contract to sell their produce through the associations, usually for one year ahead. These provisions not only give the societies an almost unshakable credit, but tend to unite the members together for greater efficiency. Most societies of this kind are set up without share capital, being financed by loans from the banks secured as above. Similar methods of finance are to be found in regard to the co-operative bacon factories and other branches of agriculture. Much has been written about

the wonderful success of the Danish co-operative system, but we think that this point—the inherent strength of the co-operative trading organizations—has often been insufficiently appreciated.

46. In short, therefore, we believe that whether it is sought to obtain assistance for primary producers from the Rural Credits Department of the Commonwealth Bank, or from the Joint Stock Banks, for the purpose of financing the marketing of Australian produce, the point upon which attention should be concentrated is the adoption in the constitution and organization of producers' associations of those features to which we have already referred, which would be directed towards raising their credit status.

We further suggest for consideration that some Commonwealth or interstate authority might be established, having for its objects the making of rules or in some other way the supervision of the constitution of marketing associations in order to secure the same object, and to bring about a greater degree of uniformity between one association and another. We would also call attention to the organization of the Agricultural Credit Corporations under the Federal Intermediate Credit System in the United States of America, which affords another example of developments which have followed these lines. Apart from this, it is obvious that producers' associations can materially improve their position by linking themselves together in a central federation.

47. To sum up. If the system of disposing of produce through the intermediary of merchants who undertake the provision of the necessary finance is felt to be unsatisfactory, the remedy appears to lie mainly with the producers themselves. Alternative facilities exist under the *Commonwealth Bank (Rural Credits) Act* 1925, and in the ordinary Joint Stock Banks. To make full use of these facilities, steps should be taken to further in every way the organization of producers into marketing associations. The organization of marketing associations is no doubt largely a matter of education, but progress upon these lines would be in accordance with what we believe to be the general trend in agricultural organization throughout the world. In the United States we understand that, as a result of the recent growth of co-operative marketing, over 2,200,000,000 dollars' worth of farm produce is now marketed annually through the agency of producers' organizations, while in Australia and Canada considerable progress has already been made. Moreover, we feel little doubt that such agencies form the best means of securing the more orderly marketing of agricultural produce, and thus minimizing the fluctuations in market prices which frequently occur.

C.—PRODUCTION CREDIT.

48. The final subject we have to discuss is production credit. This includes loans for short periods for the purchase of seeds, fertilizers, &c., for which purposes accommodation is usually required for not more than twelve months. It also includes loans for the purchase of live stock, fruit trees, certain artificial manures, &c., where a longer period elapses before any return on the capital can be expected. These are sometimes distinguished as short-term and intermediate credit. Since we have been particularly asked to consider the latter, it may be advisable at the outset to refer to the origin of the term "intermediate credit" and its place in existing credit systems.

49. In the great majority of these systems there is no fundamental difference in procedure in regard to loans for less than one year and loans for periods between one and three years. The same institutions usually make both types of loan. The term "intermediate credit" originated in the United States, and there were special reasons for it in this case which do not hold good in most other countries. Intermediate credit in America applies to loans longer than those made by the ordinary

banks and shorter than those made by mortgage institutions. The system was introduced to cover the so-called "barren area" between these two. But the special need of it lay, firstly, in the character of the American banking system which provides accommodation to agriculture by discounting agricultural paper—the notes, drafts, and bills of farmers and co-operative societies, &c.—rather than by permitting overdrafts as is done in Australia and the United Kingdom; and, secondly, in the fact that the period of maturity of agricultural paper is restricted in the Federal Reserve system by statute to not more than nine months. In these circumstances, it is fairly clear that, prior to the introduction of the intermediate credit system, the granting of agricultural loans of this character was not satisfactorily provided for, and the need for such a system was strongly felt in the depression of 1920-21. The outcome was the *Agricultural Credits Act* of 1923, under which the twelve Federal Intermediate Credit Banks were established. A short description of this system is given in the Report* of the New Zealand Commission, and a very full account in a book entitled *The Federal Intermediate Credit System*, by Claude L. Benner.

50. In the majority of European systems there was no such "barren area," and institutions for this specific purpose have therefore been unnecessary. It is important to bear in mind that the European co-operative credit institutions were designed solely for rural purposes, and to make loans for various periods according to the borrowers' requirements. The chief difference in the European system is between mortgage credit, which is definitely of a long-term character, and what is often called "personal" credit secured upon the mutual personal guarantees of members of a co-operative credit society. In Great Britain, on the other hand, farmers are dependent for short-term accommodation mainly on the Joint Stock Banks (if we except the large amount of credit they obtain through tradespeople). Loans are made by the banks by way of overdrafts, sometimes unsecured and sometimes covered by collateral security deposited by the borrower; although nominally for six months, the overdrafts are frequently allowed to run on for a considerably longer period. It will be seen, therefore, that in Europe there is, broadly speaking, no distinction between short-term and intermediate credit.

51. The conditions in Australia bear the nearest resemblance to those in Great Britain. We have been assured that the Australian Joint Stock Banks habitually allow overdrafts which are adequately covered to run on for a considerable time when so required, notwithstanding that they are nominally limited to one year. In addition to these there are the State Banks, and in at least some States these banks have powers to make loans by way of overdrafts. Section 5 (1) (b) of the *Rural Bank Act*, Victoria, gives powers to the bank for this purpose. Section 7 (d) of the *State Bank Act* 1925, in South Australia, gives similar powers. In New South Wales we understand the same facilities exist, whilst the *Agricultural Bank Act* 1923, in Queensland, makes provision for loans for productive purposes for various specified periods. It seems to us desirable that these powers should be possessed and exercised by the State institutions in all cases.

52. In these circumstances, we do not consider that there are grounds for suggesting the establishment of any special machinery for intermediate credit. It is far better, in our judgment, in the absence of a clear need for such an innovation, that the short-term and intermediate credit, whether required for existing producers or new settlers, should both be handled by the institutions referred to above. The new settlers would, of course, at the outset be at a disadvantage in dealing with the Joint Stock Banks, but no doubt special

* See Appendix II.

consideration would be given to their case, and the machinery of the State Banks might well be used for this purpose.

53. We have, therefore, to consider whether the short-term or personal credit facilities are adequate, or whether any steps could be taken to improve them.

54. It has to be remembered that one of the factors which brought the European co-operative systems into existence was the absence of adequate lending institutions in rural districts. We are assured that this is far from being the case in Australia. Branches of the Joint Stock Banks and of the State Banks are fairly widespread, and, disregarding any question of rates of interest, farmers in most districts are not handicapped through lack of banking facilities.

55. We are asked, however, to consider whether the principle of co-operative credit on European lines could usefully be applied in Australia, and we have, accordingly, referred to this matter below, notwithstanding the existence of the banking facilities mentioned in the last paragraph.

56. The German organization for the provision of personal credit consisted before the war of a large number of small co-operative credit societies linked together through central institutions. These societies not only made loans to their members, but received deposits. In fact, they carried on a banking business. The organization has undergone certain alterations since the war, but the general structure remains the same. The members consisted largely of peasant proprietors, and in their earlier days the security behind the funds deposited with these societies was the collective guarantee of all the members, with unlimited liability. Subsequently, some of the societies adopted the principle of limited liability, but in either case the security behind the money borrowed was considerable, and in the course of time the organization developed great financial strength, and was able to borrow at very low rates of interest. We do not think that this system, which spread to many other countries of Europe, has ever been surpassed, and its record of efficiency and absence of bad debts remains a very remarkable one if we disregard the wholly abnormal conditions which resulted from post-war inflation in certain countries. Nevertheless, apart from absence of competing credit organizations, its success resulted very largely from the fact that it was well adapted to meet the needs of the European agricultural systems. Not only was there a readiness on the part of farmers in these countries to adopt the principle of mutual guarantees, but the organization of co-operative credit was well suited to the system of intensive farming by a large number of relatively small holders who were accustomed to meet one another in the everyday life of village communities, and thus to become acquainted with one another and with the general conditions of farming in their districts. In other words, the system fitted in with the manner of life and the customs of the rural community, which included other forms of co-operative enterprise, such as the collective purchase of farm requisites, and the collective production of dairy produce and other farm products.

57. The circumstances in Australia are very different from these. If we except the closer settlement areas, the system of farming is mainly extensive instead of intensive, and is carried on in relatively large holdings situated sometimes several miles apart. These, in our judgment, are not conditions in which co-operative enterprise in the matter of credit is likely to thrive, in addition to which we doubt whether there is any evidence of the willingness of Australian producers to co-operate for credit purposes on European lines. Lastly, there is the much more serious objection that co-operative credit societies on the European model, if established, would have to face the competition of the

banks, including the State Savings Bank, for rural deposits, a competition in which all the factors would seem to favour the banks.

58. In these circumstances, we feel bound to reject the idea that the establishment of co-operative credit societies modelled on those prevalent in Europe would be likely to effect any general improvement in the organization of production credit in Australia. It would seem to be the best policy to rely upon the existing banks to provide this type of accommodation. As we have already pointed out, these are the institutions having control of the deposits of the general community, and (if the above conclusions are accepted) the problem of short-term agricultural credit is mainly a question of the accessibility of these deposits to agriculture.

59. A possible application of the co-operative principle which might, in our judgment, have some limited utility would be a form of mutual guarantee to cover bank advances. A co-operative credit society, for example, having a large proportion of its capital uncalled might be formed with the sole object of assisting its members in obtaining bank accommodation, by endorsing its members' promissory notes or by guaranteeing its members' overdrafts, subject to such conditions as the society might lay down. This type of credit society, we are informed, exists in Denmark, and the question of applying the same method in Great Britain was discussed in the Report* on Agricultural Credit (Economic Series No. 8) prepared by the British Ministry of Agriculture and Fisheries about a year ago. The relevant passage occurs on pages 54 to 59 of that Report, to which we would call attention. This type of organization might prove suitable in the case of closer settlement districts such, for instance, as the Murray Valley.

60. The procedure would be somewhat as follows:—A member of such a society, desiring to obtain a loan for an agricultural purpose, might apply in the first instance to the society for a guarantee on an amount sanctioned by the committee in accordance with its formulated rules. The borrower would then apply to the bank for leave to overdraw up to this amount. Obviously, the bank would form its own opinion as to what the society's guarantee was worth, and the amount of the loan would therefore depend on this estimate. In organizing such a society the efforts of the members should be directed towards the gradual building up of the society's credit upon a sound basis. An annual subscription might be devoted to the accumulation of a reserve fund. Special care should be exercised in the choice of members, and efforts made to include not only small agriculturists, but larger land-owners, and possibly other persons of importance in the district. In addition to these, a nominee of the bank or banks might be a member of the committee, thus bringing the society into closer working relations with the banks. One merit of organizing co-operative credit on these lines would be the very low administrative costs, thus avoiding an obstacle which has often proved serious in the development of co-operative credit societies elsewhere. It would also embody the principle of limited instead of unlimited liability, while it would still leave the actual business of making loans to the banks. We suggest that the Development and Migration Commission might seek the co-operation of the banks with the view to the establishment of credit societies on the above lines in suitable districts.

61. Although we have come to the conclusion set out in paragraph 58 above in regard to co-operative societies whose sole purpose is to furnish credit, the position is different when we turn to societies existing primarily for trading purposes. We laid emphasis, in the section on Marketing Credit, on the desirability of marketing associations adopting in their constitution provisions which would aim at raising their credit status as much as possible, and so enabling them if their credit

* Obtainable directly from H.M. Stationery Office or through any bookseller, price 1s. 6d. net.

is sufficiently good to command the necessary financial accommodation from the banks. Exactly the same principles apply to co-operative societies for productive purposes, such as dairies, bacon factories, wool societies, &c. The provision of production credit through the channel of such societies illustrates once more the view we have expressed throughout this Report—that the problem of agricultural credit is more one of organizing agriculture for borrowing than of providing new institutions for lending.

62. There seems to be no reason why co-operative trading societies should not be adequately accommodated by the Rural Department of the Commonwealth Bank, the State Banks, or the Joint Stock Banks, provided their credit is good. Whether the credit of such societies is good or not is mainly a question of their constitution and the loyalty with which their members observe their engagements. It is quite possible for a society, without any initial capital of its own, to establish itself in a short time on a perfectly sound financial basis, and as time goes on to be able to attract increasing amounts of working capital from the banks. This is one of the merits of the co-operative method. Denmark, as we have already mentioned, affords some wonderful examples of this type of organization, and in Australia such considerable progress has already been made in the development of co-operative trading in agriculture that there would seem to be no reason why such associations of producers should not become an element of great strength and stability in Australian agriculture as they are in that of Denmark. It might further be possible for a co-operative trading society to form a credit branch on the lines suggested in paragraph 60 above.

63. We have already alluded to the fact that credit machinery in Great Britain forms the closest parallel amongst European countries to that in Australia, and the subject of short-term agricultural credit is fully discussed in the Report on agricultural credit referred to in paragraph 59 above, the main recommendation of which is the creation of a statutory charge in the form of a chattel mortgage upon agricultural crops and stock in favour of the banks, which would be distinct from the bill of sale. We understand that the British Government has expressed its willingness to give effect to this proposal if sufficient support is forthcoming from those concerned. In Australia the farmer has an advantage in this matter over the British farmer in that powers of this kind already exist—at least in some States. The *Liens on Crops and Wool and Stock Mortgages Act 1898* (No. 7) in New South Wales seems to provide the legal basis upon which such charges are created, and we understand that similar facilities exist in other States, though we have been unable to procure the documents dealing with this matter. In our opinion, this type of legislation is right in principle. Where a farmer's main wealth consists of his stocks and crops, it is right that he should be able, if he so desires, to give a preferential lien on these stocks to cover temporary bank accommodation. We, therefore, desire to endorse the views expressed in the British Report on Agricultural Credit in regard generally to the use of chattel security. We think that the State Banks (where they have the power) and the Joint Stock Banks should make every effort to develop rural credit for productive purposes on these lines.

64. We do not consider it necessary to dwell at any length upon the credit derived by farmers from storekeepers. The subject is discussed in the British Report already referred to, and with its general conclusions we are in agreement. Notwithstanding the convenience of borrowing from tradespeople, this system too often results in farmers becoming tied to these creditors, thereby losing freedom in marketing; moreover, tradesmen's credit is often expensive, and when its cost is included in the price of the goods he purchases the

farmer does not know what he pays for it. Farmers should aim at having a minimum number of creditors, at borrowing from the banks, and paying cash to the merchant, rather than tying their business up with a number of minor trading debts.

65. Lastly, we desire to endorse the views expressed in the Report* of the New Zealand Commission under the heading "Agricultural Economics," page 15, and in the British Report, page 67, paragraph 148. Use should be made of education and propaganda amongst producers so as to promote the development of agricultural credit on the lines we have indicated, and in order to direct attention to the general economic conditions upon which alone a sound credit system can rest. It seems to us that the Development and Migration Commission might usefully have the attention of new settlers directed to the co-operative facilities which exist in each State and in the particular area in which the migrant is being settled. Likewise, the attention of co-operative organizations should be drawn to the needs of the new settlers, since it is clearly desirable that new settlers should enjoy the benefits of co-operative trading and credit at as early a date as possible.

66. In conclusion, we desire to express our thanks to Mr. C. P. Quick for his valuable services as secretary to the Committee.

SUMMARY AND RECOMMENDATIONS.

LONG-TERM CREDIT.

67. (i) It is not considered that the conditions in Australia call for the creation of new lending institutions. Broadly speaking, adequate facilities of this kind appear already to exist.

(ii) The most important of these facilities are provided by the Savings Banks or other institutions under the control of the State Governments, whose funds are guaranteed by the State. Such a system clearly can provide cheap credit. If it is felt that there is no objection to the indefinite extension of a credit system which leans upon the State Governments as ultimate guarantors of the funds loaned to agriculture, these institutions would seem to offer the simplest way of providing mortgage credit at low rates of interest.

(iii) If, on the other hand, it is felt that on the grounds of public finance rural credit should ultimately be freed from its dependence on the national credit, steps should be taken to organize the debentures of the State Savings Banks and other mortgage institutions as independent agricultural investments, secured solely upon agricultural wealth.

(iv) In order to strengthen such a system, and thus to reduce as far as possible the cost of credit, it is recommended that co-operative farm loan associations should be formed by producers, modelled on those of the Federal Farm Loan System in America, and that mortgage loans should be made through their agency. This recommendation is subject to there being reasonable grounds for expecting the Australian producer to be willing to adopt some form of co-operative guarantee of loans made by mortgage institutions.

(v) Steps should be taken to develop uniformity in procedure between one State and another in regard to the granting of mortgage credit, and this should include, if possible, a standard form of agricultural mortgage. Such steps, combined with the mutual guarantee under paragraph (iv) above, would materially help to create public confidence in the debentures, and hence to lower the rate of interest thereon.

(vi) The Commonwealth Government, in consultation with the State Governments, should consider the advisability of constituting some central governing Board

* See Appendix II.

similar to the Federal Farm Loan Board in the United States of America, empowered to co-ordinate the activities of the various mortgage institutions.

MARKETING CREDIT.

68. (i) Marketing credit should not only provide the producer with a reasonable advance on his produce at the time of production, but it should assist in promoting the orderly marketing of the produce after it has left the producer.

(ii) Where an importing firm combines the functions of merchant and commission salesman, orderly marketing does not always result.

(iii) Credit for marketing purposes can be obtained from the Rural Department of the Commonwealth Bank (by associations of producers) and from the other banks. It is not considered that any further lending machinery is required.

(iv) To develop marketing credit from these sources is primarily a question of extending, strengthening, and unifying marketing associations of producers.

(v) The powers of such associations to borrow money for marketing purposes depend largely on their constitution, including such factors as the nature of the contracts with their members, the percentage of value advanced to members on delivery of produce, the proportion of the share capital which is uncalled, the reserve fund, &c.

(vi) In order to attain the objects set out above, it is recommended that special attention should be directed to these points, and that consideration should be given to the question of establishing some Commonwealth or interstate authority for the supervision of the constitution and working of marketing associations.

PRODUCTION CREDIT.

69. (i) This includes short-term and what is sometimes called "intermediate" credit.

(ii) Intermediate credit was introduced in the United States to provide loans of maturities ranging between nine months and three years. Having regard to the wide difference between the systems of rural credits in Australia and America, it is not considered that any special steps for the provision of intermediate credit in the Commonwealth are necessary. Accommodation of this type should be given by the State Banks and Joint Stock Banks.

(iii) It is not considered that co-operative credit societies strictly on the European model are suitable to Australian conditions.

(iv) It is suggested that the formation of co-operative guarantee societies might be considered, particularly in the closer settlement areas, as an alternative to co-operative credit societies of the European type. The object of such societies would be to guarantee their members' bank overdrafts, as referred to in detail in paragraphs 59 and 60.

(v) Every effort should be made to organize new and existing co-operative trading societies, with a view to strengthening their credit status, on the lines which have been successfully followed in Denmark.

(vi) The use of crop and stock liens as cover for bank advances is recommended.

(vii) It is suggested that education and propaganda should be employed to direct attention to the general economic conditions which underlie the problem of rural credit.

(viii) Efforts should be made to link up new settlers with co-operative trading and credit facilities.

We have, &c.,

R. R. ENFIELD (*Chairman*).
G. G. BARNES.
J. A. COOPER.
A. E. GOUGH.
CHRISTOPHER TURNOR.

C. P. QUICK,
Secretary.

27th April, 1927.

APPENDIX I.

(Extract from a communication addressed by Mr. H. W. Gepp, Chairman of the Australian Development and Migration Commission, to Mr. G. F. Plant, Secretary of the Oversea Settlement Committee.)

Australia House, Strand,
London, W.C.2.
25th November, 1926.

" COMMITTEE ON RURAL CREDITS.

Acknowledging your letter of the 22nd instant, I submit the references to this Committee:—

(1) How far do the recommendations of the New Zealand Rural Credits Commission, published 1926, apply to Australia?

(2) What has been done or considered in Great Britain which would be of use to Australia?

(3) What has been done in the United States, particularly in regard to the development of intermediate Credit Systems?

A book on this subject has recently been published in New York under the auspices of the Carnegie Foundation.

(4) What has been done in other countries in regard to Rural Credits?

(5) How far should Australia consider the development of co-operative Finance Institutions in connexion with Rural Credits?

(6) What difficulties have arisen with Rural Credit systems in operation in any part of the world, and what recommendations can be made by the Committee which might help to avoid these difficulties?

(7) Generally, what recommendations or suggestions can be made by the Committee which would make money cheaper and more available to the primary producer in Australia on a sound financial basis?"

* * * * *
(Sgd.) H. W. GEPP.

APPENDIX II.

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